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The bank reform of 1947 is one of the most important financial and economic measures introduced by the Fatherland Front. It establishes a basis for state monopoly of all banking operations and is adapted to the requirements of planned economy.

Prior to the reform, credit and investment operations were conducted in three different sectors: by the government, the cooperatives, and private business.

The government group is represented by the Bulgarian National Bank, the Bulgarian Agricultural and Cooperative Bank, the Bulgarian Credit Bank, the Bulgarian Mortgage Loan Association, and the Postal Savings Bank.

The Bulgarian National Bank was established immediately after the liberation from Turkey and, for the last 50 years, has been the main credit institution for trade and industry. In this capacity it has sought the participation of foreign capital for financing loans. However, the bank gradually curtailed its economic activities and transferred them to private banks. The latter became an ever-increasing power in the domestic economy and used their dominant position to exploit ready enterprises by usurious interest rates, while allying themselves with foreign financial interests. Andrey Lyapchev, head of the Democratic coalition, was mainly responsible for this disastrous trend in the national economy. The Bulgarian National Bank was no longer a savings institution for private and commercial deposits, nor a promoter of industrial investments, but confined its operations to the issuing of notes, trading with foreign powers and collecting funds for the government.

The Bulgarian Agricultural and Cooperative Bank was an important credit institution prior to the reform. It was the recipient of 40 percent of all deposits and supported 52 percent of all bank-credit investments. It was

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established in 1904 and became an important factor in the development of capitalist agriculture. Any technological assistance sponsored by the bank depended on the capital commanded by agricultural operators; land and equipment were available only to those who could pay for them. In 1934, the Agricultural Bank merged with the Central Bulgarian Cooperative Bank and controlled the entire cooperative activity of the country.

After 9 September 1944, the BZBK (Bulgarian Agricultural and Cooperative Bank) became an important element of the new state. It is through the intermediary of BZBK that the state pursues its policy of reducing the participation of capitalist elements and supporting cooperatives, especially the farm-workers' cooperatives. In the last 6 months of 1947, the deposits accumulated in the bank amounted to over 48 billion leva (exclusive of the Postal Savings Bank and cooperative organizations) and the loans amounted to 40 billion leva. Immediately before the reform, the investments rose to 63 billion leva, 39 billion of which were in loans to the state, to communities, and other organizations, 19 billion were loaned to cooperatives, and 5 billion were loaned to private individuals. About two-thirds of all loans are allotted to agricultural investments, public construction work, agricultural construction, etc. The wide scope of its investment program makes the BZBK the largest credit institution and long-term credit bank. The bank is now engaged in a vast economic and building program, including supply and allocation of agricultural machinery, blueshine (copper sulfate), fuel and lubricants; purchase and distribution of seed; handling of silk cocoons; production and sale of rose oil; the tobacco trade and the establishment of the State Tobacco Monopoly; construction of wineries, silk cocoon dryers, thermo-electric plants, etc. Between January and November of 1947 the bank invested an average of 15 billion leva, or 17 percent of all its assets, in its own agricultural enterprises.

The Bulgarian Credit Bank was established in 1934 by the government. It was a joint stock company with state participation in capital holdings and administration. At the time of the reform, the state share amounted to 87 percent of the entire share capital. A representative of the Bulgarian National Bank was a member of the administrative council with the right to veto any of its resolutions. The bank was originally formed by a merger of 21 private joint stock companies. It was engaged mainly in extending short-term industrial credits and replaced the numerous private bank enterprises shattered by the world crisis of 1929 - 1933. The creation of the new bank saved many organizations from their precarious situations but imposed heavy financial burdens on a large section of the population.

The deposits of the Bulgarian Credit Bank amounted to over 15 billion leva in the last 6 months of 1947 and included 13 percent of all deposits in the country. As a deposit institution it holds fourth place in the country, after the Bulgarian National Bank, the Peoples' Banks and the Postal Savings Bank. In credit operations, it occupies second place, after the Bulgarian National Bank. Its average deposits amounted to over 15 billion leva monthly during the last 6 months of 1947 and included 20 percent of all deposits in the country.

The Bulgarian Mortgage Loan Association was established in 1928 for the purpose of extending long-term credits to municipalities and communities. It originally included a large share of foreign capital, which was taken over by the Bulgarian agricultural and cooperative banks in 1936. It is not accepting deposits; its investments amount to about one billion leva and are allocated to housing construction.

The Postal Savings Bank was established over 50 years ago and was the first savings institution in the country. It has accumulated over 20 billion leva in national savings from about 1,200,000 depositors. They represent 15

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percent of all deposits in the country. It ranks first as a savings deposit institution and has established 1,070 deposit branches.

The preceding exposition shows that the state sector encompasses 68 percent of deposits throughout the country and controls 74 percent of all credit operations.

The cooperative sector is represented mainly by the peoples' banks and rural credit cooperatives.

There are about 255 Peoples' Banks with a capital of 3 billion leva and a membership of 360,000, drawn from the following occupational groups: agriculture, 26 percent; employees, 20 percent; trade, 16 percent; commerce, 12 percent; and others. It has the largest number of branches and agencies, followed by the Bulgarian Agricultural and Cooperative Bank with 175 agencies, the Bulgarian National Bank with 98 agencies, the Bulgarian Credit Bank with 33, and the 66 private banking agencies.

The deposits accumulated in Peoples' Banks amount to 24 billion leva, or 20 percent of all deposits in the country, and their credit operations stand in third place among the other banking institutions with about 13 billion leva of investments, or 17 percent of all credit investments in the country.

Furthermore, the Peoples' Banks are conducting an important economic program by supplying and selling consumer goods, establishing stores, assisting the food-supply offices, financing dairies, sheep farms, bakeries, wineries, canneries, power plants, etc.

The rural credit cooperatives, which were established primarily for credit purposes, are gradually shifting their activity to production and goods exchange. Their deposits include only 7 percent of the country's total, and their credit investments only 3 percent, a very small share considering that there are 2,800 of these organizations.

The entire cooperative sector holds about 27 percent of all deposits and extends about 20 percent of all credits. In these respects it ranks second, immediately after the state sector.

The private sector was represented by the Bulgarian Commercial Bank, the Credit Bank, the Italian and Bulgarian Commercial Bank, the Prague Credit Bank, and the Franco-Bulgarian Bank, all operated with foreign capital. There were, moreover, 31 local joint stock companies, the most important of which were: the Macedonian National Bank in Sofia, the Vidin Commerce Bank, the South Bulgarian Bank in Kharmanli, and the Kustendil Commercial Bank in Kazanlek. Their deposits and credit operations amounted to about 7 billion leva, while investments involved about 4 billion, which represented 5-6 percent of all corresponding operations throughout the country during the last 6 months preceding the 1947 nationalization of private banks.

The Bulgarian Commercial Bank and the Credit Bank had the largest volume of business. Private banking operations were closely connected with industrial enterprises. The Bulgarian Commercial Bank controlled all private mining enterprises and the largest mills in the country, located in Cherven Breg; it also owned an important share of the Wuhlhaupt machine works in Ruse and other enterprises.

The public sector, represented by state credit institutions and cooperatives not subject to socialization, comprised 95 percent of all deposits, or 120 billion leva, and 94 percent of all credits extended, or 78 billion leva.

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The main purpose of the banking reform was to reorganize the banking system for active cooperation in the socialist economic program of the country. The previous system, in spite of its large number of state banking institutions, was not adapted to a planned economy. Various separate enterprises, individually conducted, duplicated each other's activities and could not offer adequate facilities for planned credit and state control of capital investments and production. Due to these considerations, such state banks as the Bulgarian Agricultural and Cooperative Bank, and the Bulgarian Credit Bank, have been ordered closed.

The new system introduced by the banking reform sets up the Bulgarian National Bank as the center of all banking activity, as "the bank of banks." Through its wide system of subsidiary branches and agencies it is in a position to cooperate with all enterprises, organizations, institutions, and the entire population. It is also a bank of issue and controls money circulation. It assures the stability of the leva by supervising government funds and foreign exchange. It organizes, collects, and safeguards national savings and industrial cash reserves.

The Postal Savings Bank and other savings institutions, such as the Peoples' Banks and agricultural cooperatives, will be the recipients of all savings deposits and will redeposit them with the Bulgarian National Bank, which will invest these funds according to planned credit operations.

The centralization of incoming receipts from all industrial enterprises, organizations, etc., in the Bulgarian National Bank makes it possible to ensure the financial success of every economic activity. The system of payment by check releases cash funds only for wages and for the maintenance of an emergency fund for petty cash transactions.

Enterprises are not authorized to engage in mutual credit operations in the form of goods or money. Accounts can be settled only through the Bank. Credit reports can indicate only the production of one specific enterprise; debit reports must indicate procurement of materials and wage payments within the enterprise; the balance will show the financial result. These reports may be extended to entire fields of production by the proper grouping of enterprises by the Bank's accounting department.

Short-term credits are designed to supplement the enterprises' and organizations' own funds on deposit in the Bank. This introduces a fundamental change in the credit system. Previously, credit arrangements were determined by the extension of a general, permanent, individual credit based upon the credit standing of the enterprise. The purpose of the loan was never investigated and the bank had no control over actual use of the funds. This policy has been completely changed. Preliminary credits will be allotted for every phase of production, for specified purposes, such as the purchase of material, seasonal expenditures, etc. The amount of the loan and pay terms will be determined by the volume of production and the time necessary for its completion.

The new system provides the bank with the ability to control the economic activity and financial condition of every enterprise. The Ministry of Industry and Trades will determine the funds necessary for fulfillment of production programs according to the plan. The amount of funds will be based on fixed norms for raw material and implements, spare parts, fuel, finished products, etc., minimum reserves of which must be maintained to assure uninterrupted production. Any violation of these norms will immediately develop financial reaction and be reflected in the current account at the Bank. For instance, if the enterprise should hold unsold merchandise, this would immediately create a financial difficulty because there would be no funds to

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pay for materials and wages. Whenever the established norms prove to be too low additional short term credits may be obtained, but only to the extent designated by the production plan.

The new credit regulations are a very important measure to stimulate the fulfillment of production plans and to speed circulation of operating funds.

Credits are released on a financial guarantee or against securities in goods and materials. It is erroneous to assume that state enterprises can enjoy unlimited and uncontrolled credit facilities. Such privileges would only tend to relax an accurate and timely discipline for the fulfillment of production plans.

An enterprise may obtain credit from only one Bank branch, the same one which is handling its accounts. This measure provides greater decentralization and increases the competence of local branches.

Another important feature of the reform is credit planning in relation to the money in circulation. The Bulgarian National Bank, as a collecting and distributing center of all monetary funds, can measure the volume of money in circulation and determine an adequate credit plan on a national basis, as well as maintain the necessary supply of monetary funds for the needs of the population.

Credit accounts will be much more accurate and will reflect the economic purpose and amount of production for which the credit has been extended. The balances of the Bulgarian National Bank will thus present an account of the progress achieved by production plans throughout the country, and will reflect the distribution of funds in various branches of the economy and various industrial groupings.

The Bulgarian National Bank is a separate legal body. Its funds are distinct from state property and it is not responsible for debts contracted by the state. Its capital is unlimited; according to a resolution of the Council of Ministers, the Bank may determine the capital fund necessary for its requirements. The Bank is headed by a director who represents its interests before the state authorities. His deputies are in charge of individual branches. This new form of administration narrows the sphere of responsibility to a small number of individuals, whereas previously a large administrative council prevented identification of inefficient or irresponsible elements.

The Minister of Finance exercises supreme control over the Bank's administration and the annual report must be approved by the Council of Ministers.

The Bulgarian Investment Bank is a new type of banking institution designed to finance credit investments throughout the country. Every credit for construction, procurement of machines, or other capital investments must bear the approval of the Investment Bank. Funds allotted by the state or local organizations are deposited in the bank and distributed by its agencies. The bank likewise accepts deposits from private individuals for housing construction.

The bank exercises strict control over the economy of construction projects; funds are released only upon presentation of a full documentary record showing the exact purpose and cost of every item of expenditure. Furthermore, the progress of construction work will be checked by the bank through local surveys.

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The accounting services of the Bulgarian Investment Bank furnish an accurate picture of construction activity throughout the country and reflect the corresponding economic growth as well as the social and cultural development and geographic distribution based on construction.

The bank is an autonomous public institution and is not liable for debts contracted by the state. The capital fund is unlimited. It is headed by an administrator who is assisted by directors. The Investment Bank has a limited number of branches; branch offices of the Bulgarian National Bank may, however, act as its correspondents. It is assigned to take over the active and passive assets of the Bulgarian Mortgage Loan Association, which is being closed.

The Postal Savings Bank will remain the chief savings collecting institution of the country. Under the fascist government its funds were frequently used for activities contrary to the national interest. The National Front government guarantees full security and confidence of all deposits, and vouches for the allocation of funds in accordance with the best national interest. The funds may be used for operations transferred to the Postal Savings Bank and other banks by the Bulgarian National Bank, such as investments and payments on state price books (not further explained), pension payments, current commercial accounts. Even the smallest locality has a representative of the Savings Bank, who is usually the employee in charge of all postal, telephone and telegraph operations.

The People's Banks operate under control of the Bulgarian National Bank. Their credit operations are limited to the sphere of small individual credits, within the limits established by the Bulgarian National Bank. The directors and employees must also be approved by the National Bank. They are not authorized to take part in production or other economic activities. The association of Peoples' Banks is being closed and all its active and passive assets are being taken over by the Bulgarian National Bank.

The Agricultural Cooperatives throughout the country are primarily agricultural organizations, and have a limited credit and deposit activity. The Bulgarian National Bank may, however, assign them to handle certain other operations, such as pension payments, coupon payments of government bonds, etc. All their operations are under control of the Bulgarian National Bank.

The new banking organization is following the pattern set by the USSR credit experience and is guided by the same principles. It is, however, adapted to the special economic conditions prevailing in Bulgaria. Thus, a single banking institution is financing and giving credit for all types of capital investment, while in the USSR four different banking organizations are assigned to separate fields of economic activity: the Industrial Bank (Prombank), the Agricultural Bank (Sel'khozbank), the Bank for Financing the Capital Construction of Trade and Cooperatives (Torgbank), and the Central Bank for Financing Residential and Communal Construction (Tsekhombank). The Peoples' Banks also represent a special feature of the Bulgarian economy, as well as the agricultural cooperative banking operations. Finally, the Bulgarian National Bank is operating as a universal savings institution, while the USSR Gosbank accepts only very large individual deposits in excess of a certain predetermined figure.

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